



the Latest Word

For IPERS Employers

Iowa Public Employees' Retirement System | Summer 2009

Incorrectly reporting cafeteria plans may cost you

IPERS has stepped up enforcement of an administrative rule that allows IPERS to keep excess employer contributions paid on wages that have been incorrectly reported as IPERS-covered wages. IPERS will use these employer contributions to reduce how much a member must repay IPERS for payments figured on the higher, incorrectly reported wages.

Including noncovered wages in IPERS wage reports can improperly inflate a member's monthly retirement benefit. Reporting inflated wages can also lead IPERS to pay too much in death and disability benefits. IPERS must collect overpayments to retirees or their beneficiaries after discovering an error that led to inflated benefits. To reduce the costs members have to pay, IPERS can keep the employer's contributions rather than refunding the amount paid by the employer on the extra wages.

Reporting too much compensation as IPERS-covered wages most commonly occurs for cafeteria plans. Cafeteria plan compensation is reported as IPERS-covered wages only when the compensation includes a cash option that is equally available to all employees. Otherwise, the compensation is not covered by IPERS and should not be reported to IPERS as wages, and you should not submit contributions on it. IPERS recommends all cafeteria plans be submitted in writing to IPERS for a covered wage determination.

FY2009 employer annual statements coming in July

Employers will begin receiving an annual IPERS statement containing all transactions received by IPERS during each fiscal year. The first statement, possible because of the switch to the I-Que reporting software, will cover fiscal year (FY) 2009 (July 1, 2008–June 30, 2009).

Many employers have requested this information for their auditors in the past. I-Que provides the

means for IPERS to generate an annual statement automatically. Statements are not available for years before FY2009, but in the future, reports for the previous two years will be available.

IPERS will mail the statements electronically or by U.S. mail in July, depending on the delivery preference your organization has set in I-Que.

Doing the paperwork: IPERS contributions during furloughs

Employees who wish to have the wages they lost during a furlough recorded as IPERS-covered wages must apply to make up contributions that would have been paid on the wages. The employee must pay both the employer and employee contributions.

Making up contributions can result in a higher lifetime monthly benefit for employees who are close to retirement. But for most employees, making up contributions would not affect their retirement benefits.

Because an employee's decision to submit contributions cannot be changed or cancelled, it is important that any employee interested in making up contributions complete the *Request for Benefit Estimate for Employees Affected by a Furlough*

form to get a benefit estimate before applying. The estimate will show how additional contributions may affect the employee's benefits. The form is available on the IPERS Web site, www.ipers.org.

If the employee decides to proceed, the employee must complete the *Application to Submit Contributions for Furlough* and submit the signed form to the employer. The employer certifies the eligible wages on page 2 of the form, and mails the form to IPERS.

IPERS will process the form, adding a billable amount on the employer monthly statement. If you use I-Que, you may view the amount due online before receiving your statement in the mail.

See Employer Bulletin 2009-1 for complete instructions on handling an employee's application to make up for covered wages lost during a furlough. A definition of what constitutes a furlough is included.

CEO Donna M. Mueller on Westridge

It can be difficult to separate fact from rumor and certainty from speculation in discussions that follow bad events. The fact is that we do not have all of the answers yet about our Westridge investment. We do know federal authorities are taking appropriate action in the Westridge case, and we must be patient while the court does its work.

Being patient does not mean being idle. Our legal team is aggressively seeking the recovery of IPERS' investment and we will continue to fight for what is rightfully ours. Iowa Attorney General Tom Miller and Governor Chet Culver continue to support our battle to recover IPERS' money.

Although the outcome of Westridge does not change IPERS' overall funding status, this case concerns all of us. At the same time, concern about the effect of the recession on investments has greatly overshadowed the Westridge investment.

The worldwide recession has been the worst economic period for our country since the Great Depression. Our personal retirement savings accounts have lost much of their value, and it may take years for individuals to make up their losses. Large investors such as IPERS have an investment timeframe that spans decades rather than years, and the recession has affected these investors' long-term funding.

In spite of the bad economic news, IPERS continues to be a strong retirement plan with predictable, dependable benefits. We can speed up our own economic recovery and preserve IPERS for all future public employees through a plan that addresses IPERS' future assets as well as future liabilities. The Benefits Advisory Committee is already working toward this goal.

The latest word on the Westridge Investment

THE BACKGROUND

In February, IPERS ended an investment management contract with Westridge Capital Management after confirming federal authorities were investigating two company executives for fraud. IPERS has assisted the authorities since they began the investigation. IPERS will continue to assist federal authorities until the case is resolved.

THE INVESTORS

There are about 40 affected investors. Other investors seeking to recover money reportedly include pension or endowment funds of 3M, Blue Cross & Blue Shield, Kaiser Aluminum & Chemical, Wells Fargo, North Dakota, San Diego County, Sacramento, the University of Pittsburgh, and Carnegie Mellon University.

IPERS' INVESTMENT

IPERS hired Westridge Capital Management in March 2007 to manage one strategy within the domestic equity portfolio, using about 2 percent of IPERS' assets. The initial investment in 2007 was about \$400 million. IPERS later added two \$50 million investments as part of rebalancing our portfolio to maintain the Investment Board's asset diversification targets.

The value of our investment was expected to increase or decrease in line with the stock market. A component of the investment, a stock arbitrage strategy, was expected to provide a very modest amount of additional return. The stock market experienced major losses in 2008 and early 2009. As a result, the value of our investment also dropped significantly.

THE RECOVERY

IPERS has recovered \$35 million, most of which was held by Westridge to pay margin calls. After IPERS' recovery of \$35 million, and after deducting the loss due to the declining stock market, the value of our account should be about \$291 million.

The court has appointed a receiver who is responsible for identifying and protecting assets. The receiver has captured assets and investments valued at about \$900 million and has estimated claims against these assets at about \$1.5 billion. Because claims exceed available assets, IPERS' recovery will be less than our estimated account value.

THE LEGAL STATUS

It may be months, or even years, before the case is resolved. The two men arrested still have not been indicted. The court-appointed receiver, who will develop a plan on returning available money to investors, is expected to outline a claims process by June 30.

A FREQUENTLY ASKED QUESTION

One question asked frequently is, "Could IPERS have prevented this from happening?" Many investors have asked themselves a similar question in light of recent fraud cases. IPERS and other investors already perform due diligence to research a company before selecting a manager or making an investment. Companies such as Westridge are also heavily regulated by federal agencies. Right now it does not appear there were evident warning signs, but IPERS is joining other investors in reviewing industry standards and our own standards to see what additional protections we can adopt.

Read Westridge updates and get other investment-related news on <www.ipers.org>.

Snow days can delay IPERS benefits

Snow days that extend the school year from May to June can delay the start of IPERS retirement benefits.

Retirees can start IPERS retirement benefits the month *after* the month their employment ends. If snow days push the end of the school year from one month to the next, the first month of retirement eligibility will also be one month later.

For example, a new retiree whose last day of employment was in May could start IPERS retirement benefits in June. If snow days delay the end of the school year until early June, employment ends in June and IPERS benefits would start in July.

A school district may adjust the employment contract so that the work relationship formally ends in May as originally scheduled. This allows a retiree to begin receiving IPERS retirement benefits in June.

An agreement to end employment before the end of the school year is between the school district and the retiree. IPERS' role is only to ensure the agreement is not just for show but really changes the last day of employment. IPERS will check to see if the retiree worked fewer days than the number required in the original contract with a reduction in salary and benefits proportionate to the number of contracted days not worked.

To begin receiving benefits in June, an employee must not work in June. Vacation, personal, or sick leave used to replace days not worked in June constitutes employment into June. Employees may not volunteer their services in June. This is based on an Iowa Attorney General opinion—teachers and superintendents may not volunteer for work that is usually compensated.

YOUR RESPONSIBILITY TO VERIFY FINAL EMPLOYMENT DATE

As your organization's reporting official, you must verify each retiree's final date of employment by completing the "Employer Verification of Termination" page from the retiree's *Application for IPERS Retirement Benefits*. If you complete this verification page early, and the information you reported later changes (such as the retiree's final date of employment), you must notify IPERS to update the retiree's application. The retiree may have to pay back retirement benefits if you don't notify IPERS of the change.

Report employee's termination and last check in I-Que

Report an employee's termination date and the employee's last check in the I-Que monthly wage reports. Do not use a *Notification of Terminating Employee(s)* form or a photocopy of the form. This form is obsolete. We will no longer process these forms.

If you forget to include these dates in your monthly report and need to submit them separately, please use the form *Member Employment Information Update*. This form is available in the *Employers* section on the IPERS Web site.

Check IPERS' Web site to get the current version of IPERS forms.

Avoid I-Que errors by using CASS Certified postal addresses

If you get exception messages regarding your employees' addresses when submitting your wage reports, it is probably because the format of the employee address stored in your payroll system does not match CASS guidelines. IPERS uses the United States Postal Services' CASS for member addresses.

CASS stands for Coding Accuracy Support System. It was designed to improve the accuracy of addresses and increase the amount of mail that makes it to its intended recipient on the first try. Organizations like IPERS that send large mailings save money on postage by conforming to CASS guidelines. Even if your organization does not send out large mailings, adhering to CASS guidelines can get your mail delivered faster and reduce returned mail.

Any address you submit to I-Que is validated against CASS. If I-Que cannot verify the address you entered (for example, if the address does not exist in the postal service's CASS database), you must do one of the following two things:

- 1. Override the address standardization.** This option allows you to add the address even if it cannot be verified in the CASS database. If you override the address standardization, you will receive a message that it has been saved.

- 2. Correct the address.** This option will take you back to the address screen where you can enter the correct address.

You can avoid having to repeat this process every month by changing the address in your payroll system to the CASS address provided by I-Que.

Q&A

Employee Q&A: Please share with employees *Furloughs and IPERS benefits*

1: Am I still covered by IPERS during a furlough?

A furlough does not change your status with IPERS; you are still an active member. In fact, you cannot take your money out of IPERS until you end all employment that is covered by IPERS.

IPERS considers a furlough to be a temporary reduction in your work hours that your employer requires. You remain an employee during a furlough with the expectation you will return to your normal work after the furlough ends. Your furlough may be for a few hours or a few days, which may be sequential or spread out over several months. Your employer may use a different term for furlough, such as temporary layoff.

IPERS does not define a reduction in overtime, lower wages because of a job reassignment, or a reduction in base pay as equivalent to a furlough. Seasonal and permanent layoffs are not considered furloughs either.

2: I don't plan to retire for many years. Will a furlough affect my IPERS retirement benefits?

It is unlikely a furlough will affect your retirement benefits if you continue to work for several more years. Because IPERS is a defined benefit plan, IPERS benefits are determined by a formula. The formula includes a multiplier that increases as your years of service increase, and a final average salary.

Your final average salary is the average of your highest three years of wages. Because wages usually increase during a career, the years during which

you will earn the most have yet to come.

When a furlough lasts only a few days, regardless of whether the days are in a row or periodic one-day furloughs, you continue to earn service

credits uninterrupted. You need to receive IPERS-covered wages only once anytime during each quarter (three months) to get a service credit for the quarter.

3: I hope to retire soon. Will a furlough affect my IPERS retirement benefits?

It's possible. Although you continue to earn service credits during a furlough, you could have lower wages for that year. This could affect your benefit amount if that year is one of the three years that determines your final average salary for the benefit formula. However, there are protections in place that lessen the impact.

First, the three years of wages that determine your final average salary do not have to be the three years immediately before you retire. If your wages go down because of a furlough, or a cut in hours or pay,

you do not have to use the lower wages in the formula if you had three years of higher wages in the past. We will automatically use your highest three years of wages to figure your final average salary.

Second, you can preserve a higher final average salary by making up for the contributions IPERS would have received from you and your employer had you been working instead of furloughed. See question 5 for an explanation of the action you must take.

Third, even if a furlough decreases your final average salary and you decide not to make up contributions, wages are only one variable in the benefit equation.

Benefit formula for regular members

Final Average Salary	×	Multiplier
Average of highest 3 years of IPERS-covered wages (or 121% of fourth-highest year, whichever is lower).		2% a year for 30 years plus 1% a year for years 31–35. Maximum = 65%. (Benefits reduced unless, at retirement, you are age 65, age 62 with 20 years of service, or your age + years of service = 88.)

Example: Age 58 with 30 years of IPERS-covered employment

	Without furlough			With 5 furlough days		
3 year highest wages	\$50,000	\$51,500	\$53,045	\$50,000	\$51,500	\$52,025
3 year total wages	\$154,545			\$153,525		
Final average salary	\$51,515			\$51,175		
Multiplier	60% (2% a year × 30 years)			60% (2% a year × 30 years)		
Estimated monthly benefit	\$2,575.75	$\left(\frac{\$51,515 \times .60}{12}\right)$		\$2,558.75	$\left(\frac{\$51,175 \times .60}{12}\right)$	

4: Can I make up for any drop in my monthly benefit that a furlough would create by delaying my retirement?

The impact of delaying retirement depends on your circumstances, but it is likely you would make up for a reduction in your monthly benefit caused by a furlough—and potentially gain even more.

By continuing to work, you could increase the wages that IPERS will use to calculate your final average salary, which is used in the benefit formula. You can also continue to increase your service credits, which will increase your multiplier in the benefit formula.

In the example above, the person was eligible to retire because she met the rule of 88 (age + years of service = 88). However, being eligible to retire does not mean your benefit amount will be calculated with the maximum multiplier. For regular members, the multiplier continues to increase until you have 35 years of service.

Even if you have earned the maximum multiplier, any increase in salary, even if it is only a cost-of-living increase, can increase your final average salary, subsequently increasing your monthly benefit.

5: How do I prevent a drop in my monthly benefit that a furlough may cause by making up contributions?

If your final average salary would be reduced as a result of an employer-mandated reduction of work hours (furlough), you may be eligible to make voluntary contributions to your IPERS account. Choosing to do this will minimize the furlough's negative impact to your IPERS benefit amount. The voluntary contributions must be the amount of IPERS contributions you and your employer would have paid if you had not had reduced work hours.

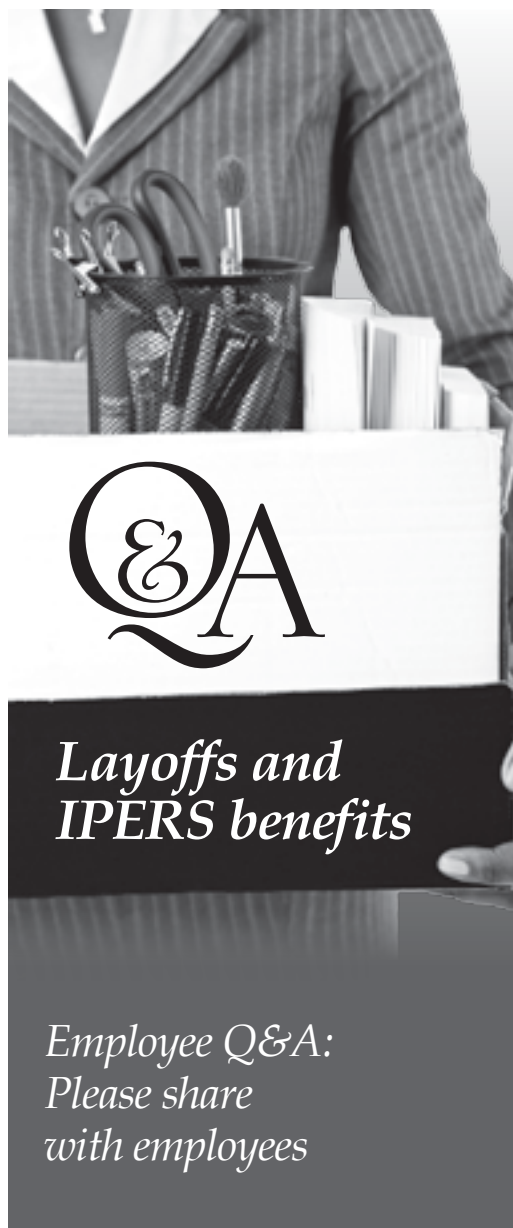
If the person in the example above were to make up contributions for her five-day layoff, she would have to pay her own share and her employer's share of contributions for the amount of her lost wages. The combined member and employer contribution rate for July 1, 2008–June 30, 2009, is 10.45 percent, so she would pay \$106.59 ($\$1,020 \times 10.45\%$). The additional contributions restore her final average salary, increasing her estimated monthly benefit by \$17. In slightly over six months, she would make up the cost of the added contributions through a higher monthly benefit. The higher benefit is for life.

You can make voluntary contributions only for hours reduced between January 1, 2009, and June 30, 2010. You will find this beneficial *only if* your final average salary will

include your wages from calendar year 2009 and/or 2010. To make voluntary contributions, you must file an application form with your employer before July 1, 2010, and your employer must forward your additional contributions to IPERS no later than July 31, 2010. The application form contains more information and is available in the Members section of IPERS' Web site, <www.ipers.org>. Current and future contribution rates are also always posted on the Web site.

6: Do I need to call IPERS or take any action if I am furloughed and do not plan to retire for several years?

There is nothing you need to do about your IPERS benefits when you are furloughed. Your employer reports your earnings and submits contributions on your behalf each month. IPERS cannot pay any money to you until you end all IPERS-covered employment. The furlough will not affect your future retirement benefits unless it occurs during your three highest years of earnings.



1: Am I still covered by IPERS if I am laid off?

Once you become a member of IPERS, you remain an IPERS member until you decide otherwise—even if you no longer work in a job covered by IPERS. Although you will no longer be contributing to IPERS or earning additional service credits, you remain an IPERS member as long as you choose, even if your layoff is permanent. Your membership in IPERS does not end until you close your account with IPERS and take a refund. However, a refund may not be best for you, and you have other choices. See question 5 for a discussion of alternatives.

2: Do I need to call IPERS or take any action if my layoff is permanent?

Although you don't have to call IPERS after a permanent layoff, we recommend you do so. Our retirement counselors can talk with you about the benefits you have earned so far and your alternatives.

3: What are my alternatives if I am laid off?

You can immediately cash out your IPERS account or roll over your money into another retirement account. Because both of these end your IPERS membership and erase service credits you have earned, you should talk with an IPERS representative first.

You may also leave your money in IPERS, and your account will continue to earn interest until you decide to:

- Roll your money over to another retirement plan.
- Take a refund.
- Begin receiving retirement benefits, if eligible (which is generally after you are vested and age 55 or older).

An IPERS publication, *Leaving IPERS-Covered Employment Before Retirement*, describes these alternatives in detail. It is available at www.ipers.org, or you can call IPERS for a print copy.

The Latest Word is published by the Iowa Public Employees' Retirement System for participating employers and others interested in IPERS policy and funding.

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4: Do I need to do anything if I leave my money in IPERS when my job ends?

If you want to leave your money in IPERS, you do not need to do anything. Your membership in IPERS will continue and all benefits you have earned so far will remain intact. Keeping your IPERS membership means your beneficiary will become eligible for a death benefit if you die, and if you are vested, you may become eligible for IPERS disability benefits at some time in the future. These benefits provide important protection for you and your family.

If you are vested and entitled to an IPERS retirement benefit, you may contact IPERS to receive a benefit estimate. You can keep your money in IPERS until you begin receiving retirement benefits. Benefits may begin as early as age 55, or before age 55 if you are awarded social security disability benefits or railroad retirement disability benefits. To apply for retirement benefits, contact IPERS.

If you end IPERS-covered employment, be sure you:

- Keep your address updated with IPERS to ensure you receive important information about your IPERS benefits. You need to notify IPERS of an address change even if you notified the post office. Call IPERS or update the information online at <www.ipers.org>.
- Update your beneficiary information if you need to change your beneficiary. Call IPERS or get the *Enrollment/Beneficiary Designation* form online.

5: What's the best alternative for me?

Each person faces different circumstances and only you can decide what is best for you. While we cannot tell you what to do with your money if you leave IPERS-covered employment before retirement, here are times when it might make sense to leave your money in IPERS:

- **You plan to return to IPERS-covered employment in the future.** The service credits you earned before you left employment will remain on file if you keep your money in IPERS.
- **Your new employer's retirement plan has a waiting period before you are eligible to join.** You cannot roll your money from IPERS into your new employer's plan until the waiting period ends.
- **You don't have an employer-sponsored retirement plan.** You left IPERS-covered employment and do not have another employer-sponsored retirement plan into which you can roll over your contributions.
- **You are unsure of what to do with your IPERS contributions.** You can leave your money in IPERS and let it earn interest while you decide what to do. If you decide later that you want to take a cash refund or roll over your money, you may do so then.
- **You don't want to worry about managing your investment.** Because IPERS manages investments, you don't have to worry about making the right investment decisions.

- **You want to keep access to IPERS death benefits.**

By leaving your money in IPERS, you continue to provide your beneficiary protection if you die.

6: If I participate in an early retirement program set up by my employer to reduce the number of layoffs, can I start IPERS benefits?

It depends. Your eligibility for IPERS benefits and eligibility for an early retirement program sponsored by your employer are separate. To receive IPERS benefits, you must be eligible under IPERS' rules. Your employer may have eligibility rules for its early retirement program that are different from IPERS' rules.

Employers may place other limits on your future employment when you accept an early retirement incentive. These also are separate from IPERS rules.

Remember, IPERS benefits do not start automatically. We recommend you complete an application 60 days before the month when you want benefits to start.



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Correct phone number can save time and trouble

Reduce delays by calling IPERS at the right number.

Call the Employer HelpDesk only for answers to employer questions. IPERS staffs the HelpDesk with personnel who know the I-Que system and employer reporting requirements. They are unable to answer benefit questions from your employees. If your employees call the HelpDesk, our staff must transfer the phone call while your employees wait.

If you have employees who have questions about their benefits, please give them IPERS' toll-free number for members. There are also separate e-mail addresses for employers and employees.

Employer HelpDesk

1-877-IPERS-99 (1-877-473-7799)

Employer e-mail

employerrelations@ipers.org



Employees

1-800-622-3849 info@ipers.org